PIONEER
ONLINE BUSINESS
ACADEMY

IDENTIFY AND ASSESS THERISK PROFILES OF ORGANISATIONS

RISK MANAGEMENT AND ORGANISATIONS

Lesson 2

Learning Outcomes

- 2.1 Produce a risk profile for an organisation
- 2.2 Review and comment on risk profiles of organisations in different industries
- 2.3 Discuss enterprise wide risk and the benefits and drawbacks of such an approach

2.1 PRODUCE A RISK PROFILE FOR A ORGANISATION

What is a Risk Profile?

- A risk profileis a quantitative analysis of the types of threats to which a company or organisation areexposed to.
- It investigates the nature and level of the risks faced, the cost and disruption levels tied to each risk, and the strength of controls in place to manage them.
- The significance of a risk profileis influenced by an organisation's risk appetite.

Components of a Risk Profile

A risk profileexamines:

- The nature and level of the threats faced by an organisation
- The likelihoodof adverse effects occurring
- The level of disruption and costs associated with each type of risk
- The effectivenessof controls in place to manage those risks

Benefits of Creating a Risk Profile

- **Improved Preparedness**

No business can ever protect itself from all potential threats, but, by creating a risk profile, you can more confidently and effectively predict the types of incidents your organisation may be impacted by and react accordingly.

- **Valuation of Risk**

Risk profiles ensure that all assumptions about risks arecouched in terms of numerical impacts and probabilities so any dialogue about risk becomes purely technical. By removing gutfeelings, arbitrary scales,and qualitative terms from the discussion, the calculation and communication of risk becomes standardised and more reliable.

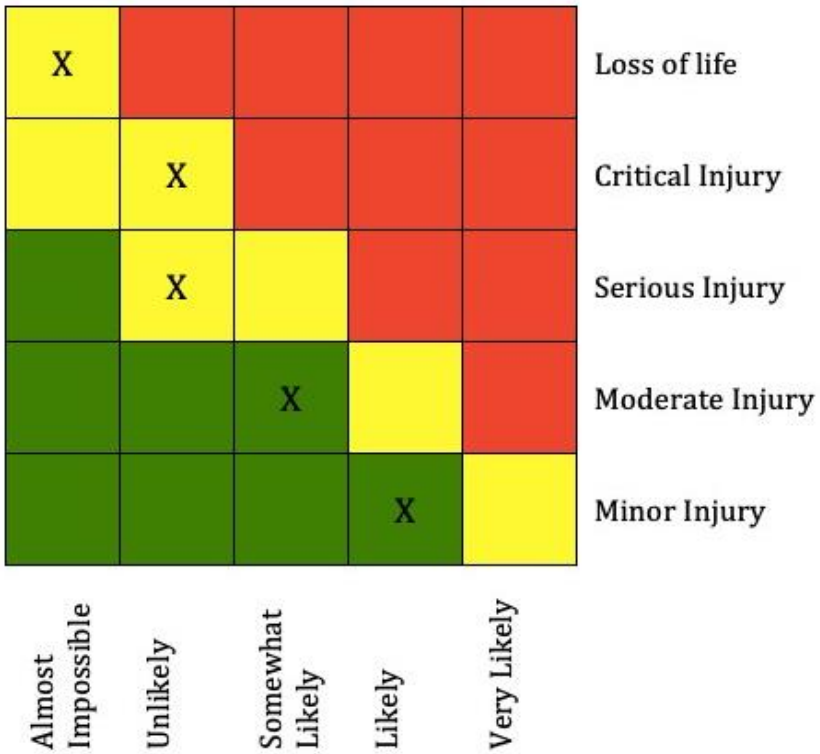
Benefits of Creating a Risk Profile

- **Improve the Accuracy of Contingency Budgeting**

Risk profiles mean that contingency budgets can be more accurately estimated and reduce the amount of guesswork involved. By integrating risk profiles into cost planning, organisations can develop scenarios to better steer what extra resource, time, and money should be budgeted.

Example of a Risk Profile

Example of a risk profilefor an ice skating ring:



Example of a Risk Profile

Minor injury – likely

Level of disruption and costs

- No disruption for operations
- Costs include first aid supplies

Controls in place to manage the risks

- Provide first aid training to all team members
- Include safety guideline notices at the entrance and around the ring

2.2 REVIEW AND COMMENT ON RISK PROFILES OF ORGANISATIONS IN DIFFERENT INDUSTRIES

Banking Industry

Banks and financial institutions face the following types of risks:

- **Credit risks** - Credit risk is the risk that arises from the possibility of nonpayment of loans by the borrowers. The profitability of a bank is extremely sensitive to credit risks. Hence, even if credit risk rises by a small amount, the profitability of the bank can getextremely impacted.

- **Market risks** - Banks face market risks in various forms. Forinstance if they areholding a large amount of equity then they areexposed to equity risk. Also, banks by definition have to hold foreign exchange exposing them to Forex risks. Similarly banks lend against commodities like gold, silver and real estate which exposes them to commodity risks as well.

Banking Industry

- **Reputational Risk** - Reputation is an extremely important intangible asset in the banking business. Banks can save their reputation by ensuring that they never participate in any unfair or manipulative business practices. Also, banks need to continuously ensure that their public relations efforts project them as a friendly and honest bank.

- **Liquidity Risk** - Liquidity risk is another kind of risk that is inherent in the banking business. Liquidity risk is the risk that the bank will not be able to meet its obligations if the depositors come in to withdraw their money. This risk is inherent in the fractional reserve banking system.

  Modern day banks are not very concerned about liquidity risk. This is because they have the backing of the central bank. In case there is a run on a particular bank, the central bank diverts all its resources to the affected bank. Therefore, the depositors can be paid back when they demand their deposits.

Retail Industry

The following are the main risks affecting the retail industry:

- **Theft** - Theft costs retailers 1.3 percent of their sales and can whittle away at your profit margin if you don't take steps to prevent it.

- **Data breach** - Whether it's an attack on the online store or the credit card processing system, a data breach could leave a retailer with massive tech bills and thousands of frustrated customers.

- **Damage to inventory** - A windstorm, tornado, or power outage could leave a store with a costly surplus of spoiled or damaged inventory.

- **Customer injury** - Icy sidewalks and rainy days could lead to huge legal bills for a small store if a customer slips and falls.

Retail Industry

Reputation risks - Retailers face a variety of threats, including changing consumer purchasing habits and threats to brand and reputations in the eraof social media. Meanwhile, as they look to protect their brands against threats, many retailers have made reputation risk a part of their corporatestrategy and planning, with protocols in place to quickly respond to reputation threats.

Intense competition - Online shopping continuesto boom.The impact of online shopping boom on many brick-and-mortar retailers has been devastating. Retailers that have survived – and succeeded – in the face of online competition have done so by focusing on customer experience and embracing opportunities that technology provides.

Printing and Publishing Industry

- The printing and publishing industry has been forced to confront disruptive technologies that have changed the way content is created, distributed and consumed.

- Yet many publishers have adapted to the disruption. They're embracing the ability to expand beyond print publishing into digital formats to reach new – and broader – audiences.

- As they've embraced digital, thriving publishers have adapted design and content to new formats, such as mobile devices, while also adjusting pricing models to attract online consumers. Many have learned to view print and digital as complementary, with some digital publishers even embracing print opportunities.

2.3 DISCUSS ENTERPRISE WIDE RISK AND THE BENEFITS AND DRAWBACKS OF SUCH AN APPROACH

What is Enterprise-wide risk management (ERM)?

Enterprise-wide risk management (ERM) is a process of coordinated risk management that places greater emphasis on co-operation among departments to manage an organisation's range of risks as a whole.

ERM offers a framework to effectively manage uncertainty, respond to risk and exploit opportunities as they arise.

The framework comprises of policies, processes, tools, reports and ideal governance structure.

Components of ERM

The ERM framework encompasses the following elements:

1. DiagnosticReview
2. Risk Identification
3. Risk Assessment & Measurement
4. Risk Control & Mitigation
5. Risk Monitoring & Reporting
6. Risk Based Decision Making

Components of ERM

1. Diagnostic Review

Involves diagnostic review of risk management-related processesof the organisation, which forms the basis for overall ERM implementation. The study includes review of:

- Risk management structure
- Underlying policies and procedures for overall risk
- Capital management

2. Risk Identification

A libraryof processesand sub-processes is defined and risk underlying each is identified. Loss data capture processesarereviewed and defined. The template for capturing loss events is also defined.

Components of ERM

3. Risk Assessment & Measurement

Risks are assessed based on templates specifically designed according to nature of risk. In case of risks that can be quantified, the measurement models are defined. Additionally, the loss data captured is analysed to assess likely impact on an organisation's capital.

4. Risk Control & Mitigation

Underlying controls vis-a-vis the risks are identified and assessed for effectiveness and comprehensiveness. A corrective action plan is defined, as also a limit management framework to mitigate impact of risks.

Components of ERM

5. Risk Monitoring & Reporting

Risk management monitoring and reporting templates aredefined. Related reporting frequency and workflow is also defined.

6. Risk Based Decision Making

To ensure that risk management is embedded into strategic decision-making, a framework for risk-based pricing and a risk-based portfolio strategy is designed.

Benefits of ERM

Benefits of Enterprise-wide risk management include:

- Greater awareness about the risks facing the organisation and the ability to respond effectively
- Enhanced confidence about the achievement of strategic objectives
- Improved compliance with legal, regulatory and reporting requirements
- Increased efficiency and effectiveness of operations

Do's of ERM

- Gain support of top management and the board
- Engage a broad base of managersand employees in the process
- Start with a few key risks and build ERM incrementally
- Use existing knowledge, skills and resourcesin management, internal audit, compliance etc.
- Embed ERM into the fabric of the organisation
- Take a holistic, portfolio view of risks across the enterprise

Don’t’s inERM

- Never treat ERM as a project – ERM is a process
- Don’t get bogged down in details and history – ERM should be strategic and forward-looking
- Avoid relying only on a fewkey staff – make ERM everyone’s job
- Don’t take a silo or stove-pipe approach to risks. Don’t ignore how risks might impact on other parts of the business
- Avoid obsessing too much about categorizing risks – rather than ensuring that the key risks have been identified and mitigation plans developed
- Never assume that the risk register is complete – there will always be ‘unknown unknowns’ and the biggest enemy of effective ERM is complacency